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SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT
AUGUST 2, 1977

1. ASEAN SUMMIT (SECRET)

ECONOMIC ISSUES WILL HAVE A SUBSTANTIAL SHARE OF THE
ASEAN SUMMIT AGENDA. A COMPREHENSIVE REPORT OF THE
ECONOMIC MINISTERS TO BE ENDORSED BY THE SUMMIT COVERS:
PREFERENTIAL TRADING ARRANGEMENTS FOR PETROLEUM AND RICE;
THE FIVE ASEAN INDUSTRIAL PROJECTS; POSSIBLE ADDITIONS,
DELETIONS OR MODIFICATIONS OF THESE; INTENSIFICATION
OF COOPERATION IN ENERGY; THE AGREEMENT ON ASEAN
PREFERENTIAL TRADING ARRANGEMENTS; AN EXCHANGE OF TRADE
PREFERENCES ON 71 PRODUCTS; COOPERATION IN FOOD,
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AGRICULTURE AND FORESTRY; A STUDY OF BUFFER STOCKING
ARRANGEMENTS FOR ASEAN PRODUCTS; BILATERAL AGREEMENTS
ON INVESTMENT GUARANTEES AND AVOIDANCE OF DOUBLE
TAXATION; COOPERATION IN THE FIELD OF TRANSPORTATION
AND COMMUNICATIONS; ASEAN EXTERNAL ECONOMIC RELATIONS,
INCLUDING COORDINATED POSITIONS ON MATTERS OF PARTICULAR
INTEREST; AND MACHINERY FOR ECONOMIC COOPERATION.

A "SWAP" AGREEMENT BETWEEN ASEAN CENTRAL BANKS, OF MORE

SYMBOLIC THAN REAL IMPORTANCE, IS ALSO EXPECTED TO BE
ENDORSED BY THE SUMMIT.

IT IS AS YET UNCERTAIN WHETHER THE SINGAPORE-PHILIPPINE-
THAI TRADE LIBERALIZATION AGREEMENT WHICH NOW COVERS
ABOUT 1000 ITEMS WILL BE BROUGHT UP AT THE SUMMIT.
SINGAPORE APPEARS TO FAVOR DOING SO THEREBY GETTING
INDONESIAN AND MALAYSIAN BLESSING WHILE LEAVING DOOR
OPEN FOR THESE TO JOIN LATER; PHILIPPINES APPEAR
CONCERNED ABOUT POSSIBLE CONTROVERSY.

WE CAN EXPECT THE SUMMIT COMMUNIQUE TO ENDORSE THE
INTEGRATED COMMODITY PROGRAM AND THE COMMON FUND.

FOCUS OF MEETINGS WITH THE AUSTRALIA, JAPAN AND NEW
ZEALAND WILL BE ON JAPAN ALTHOUGH AUSTRALIA AND NEW
ZEALAND WILL ALSO BE PRESSED ON TRADE ISSUES. AUSTRALIA
WAS ALSO APPROACHED BY A STABEX SCHEME AND TURNED IT
DOWN. NEITHER COUNTRY IS IN GOOD ENOUGH SHAPE
ECONOMICALLY TO BE ABLE TO BE VERY FORTHCOMING AND THE
AUSTRALIANS ARE CLEARLY WORRIED ABOUT POSSIBLE
CONFRONTATION. BOTH THE "TRILATERAL" ECONOMIC PRESSURES
ON THE GOJ AND THE FUKUDA MISSION TO SOUTHEAST ASIA
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SEEM TO WORK IN THE DIRECTION OF PUSHING JAPAN TOWARD
GREATER GENEROSITY ON AID.

2. US-ASEAN ECONOMIC CONSULTATIONS (LIMITED OFFICIAL USE)

GOI MINISTERS WIDJOJO AND PRAWIRO TOLD AMBASSADOR NEWSOM
THAT THEY WANTED ECONOMIC MINISTRY INVOLVEMENT IN US-ASEAN
TALKS AND WILL DISCUSS THIS WITH OTHERS AT THE TIME OF
ASEAN SUMMIT. SICOT OF THE PHILIPPINE PLANNING AGENCY
SAID THAT HE WOULD NOT PARTICIPATE PERSONALLY IN THE
TALKS BUT THAT HIS DEPARTMENT WOULD TAKE AN ACTIVE PART
IN PREPARATIONS IN ASEAN POSITIONS. IT APPEARS THAT
THERE WILL BE SOME DISCUSSION AT THE SUMMIT OF THE
RESPECTIVE ROLES OF THE FOREIGN OFFICES AND THE ECONOMIC
MINISTRIES. WHILE THE FOREIGN MINISTERS AGREED IN THEIR
PREPARATORY WORK FOR THE SUMMIT THAT THEY HAVE THE
PRIMACY IN COORDINATING ASEAN'S WORK AND ALSO IN
RELATIONS WITH THIRD COUNTRIES, THE ECONOMIC MINISTERS
AGREED THAT IN DIALOGUES WITH THIRD COUNTRIES WHERE
ECONOMIC MATTERS ARE TO BE CONSIDERED THE ECONOMIC
MINISTERS SHOULD BE INVOLVED.

WE GET SOMEWHAT DIFFERENT SIGNALS ON WHAT ASEAN'S
PRIMARY INTERESTS ARE IN THE US TALKS. PRAWIRO THOUGHT
THAT US-ASEAN ISSUES SHOULD BE FOCUS RATHER THAN
NORTH-SOUTH ISSUES; HE WAS CONCERNED THAT OTHER ASEAN

MEMBERS MAY BE SENSITIVE TO FACT THAT INDONESIA WAS ONLY ASEAN COUNTRY REPRESENTED IN CIEC. ON THE OTHER HAND, THE MALAYSIAN SECRETARY GENERAL OF THE MFA IS QUOTED AS SAYING THAT ASEAN IS INTERESTED IN DISCUSSING NORTH-SOUTH ISSUES WITH THE US AND THAT ASEAN IN GENERAL AND MALAYSIA IN PARTICULAR IS INTERESTED IN DISCUSSING COMMODITY AGREEMENTS. SICAT MENTIONED TAX DEFERRAL.

THE PRESIDENT OF THE PHILIPPINE CHAMBER OF COMMERCE
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TOLD THE EMBASSY THAT THE KEY TO THE SUCCESS OF ASEAN WOULD BE THE INVOLVEMENT OF PRIVATE INVESTMENT. HE URGED THAT US SHOULD STIMULATE HIGH LEVEL GROUPS OF BUSINESSMEN TO VISIT THE PHILIPPINES AND POSSIBLY OTHER ASEAN COUNTRIES.

3. PROJECTED EC GROWTH LOWERED (CONFIDENTIAL)

THE EC COMMISSION, IN A RATHER GLOOMY REPORT TO THE EC FINANCE COUNCIL, HAS TRIMMED ITS 1977 GROWTH FORECAST FOR THE COMMUNITY TO 3 PERCENT. IT FORESEES ONLY A MODEST IMPROVEMENT IN GROWTH FOR 1978 (ALTHOUGH MORE EVENLY DISPERSED), NO IMPROVEMENT IN UNEMPLOYMENT, AND A MODEST FURTHER REDUCTION IN INFLATION.

4. MTN (LIMITED OFFICIAL USE)

THERE IS GENERAL ENTHUSIASM ABOUT MOVING AHEAD IN THE MTN. THE NON-TARIFF MEASURES GROUP, FOLLOWING AGREEMENT IN GROUP AGRICULTURE, AGREED TO REQUEST/OFFER PROCEDURES FOR NEGOTIATIONS WHICH ARE IN LINE WITH THE US PROPOSALS. THERE IS, HOWEVER, A CERTAIN LACK OF CREDIBILITY DEVELOPING WITH REGARD TO THE OVERALL TIMETABLE, ESPECIALLY THE NOVEMBER 1 DEADLINE FOR AGREEMENT ON A TARIFF FORMULA. THE CANADIANS IN PARTICULAR ARE HAVING DIFFICULTY WITH THIS DEADLINE BECAUSE OF THE NUMBER OF EXCEPTIONS THEY WISH TO NEGOTIATE. THE CANADIAN PROBLEMS WILL IN TURN AFFECT THE TYPE OF FORMULA THAT IS FINALLY AGREED UPON BY THE EC AND THE US.

5. MORE PROBLEMS WITH MFA (LIMITED OFFICIAL USE)

THE JAPANESE ARE EVIDENTLY ENCOUNTERING A LEGAL PROBLEM
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CONCERNING THE SIGNING OF THE PROTOCOL TO RENEW THE MULTI-FIBER AGREEMENT. APPARENTLY THE PROTOCOL AND THE UNDERSTANDINGS SET OUT IN "PAPER 44" HAVE TO BE SUBMITTED TO THE DIET FOR APPROVAL. THE GOVERNMENT IS HESITANT

TO DO THIS AS IT EXPECTS SIGNIFICANT OPPOSITION. EB,
HOWEVER, IS NOT OVERLY CONCERNED AS IT BELIEVES THAT
THE JAPANESE DESIRE TO BE A PART OF THE CONSENSUS WILL

ENABLE THE GOVERNMENT TO FIND A SOLUTION.

6. COMMON FUND (LIMITED OFFICIAL USE)

THE SECOND MEETING OF THE OECD AD HOC GROUP ON THE
COMMON FUND REVEALED THAT THERE ARE FEW IF ANY
PHILOSOPHICAL DIFFERENCES IN APPROACH AMONG MEMBERS OF
THE GROUP ON THE BASIC POOLING CONCEPT ALTHOUGH THERE
ARE DIFFERENCES ON THE NATURE OF THE BACKUP FACILITY.
THE GROUP WILL MEET AGAIN SEPTEMBER 8-9 TO FURTHER
REFINE VIEWS ON THE QUESTIONS OF POOLING AND BACKUP
FACILITIES AS WELL AS TO TAKE UP QUESTIONS OF PRINCIPLES
AND ORGANIZATION.

7. SUGAR (LIMITED OFFICIAL USE)

THE SUGAR CONSULTATIONS ENDED ON A NOTE OF OPTIMISM
WITH THE CHAIRMAN ANNOUNCING THAT SUFFICIENT PROGRESS
HAS BEEN MADE TO WARRANT THE RECONVENING OF THE FULL
CONFERENCE IN GENEVA ON SEPTEMBER 12. ON THE DOMESTIC
FRONT THE HOUSE-SENATE CONFERENCE ON THE FARM BILL IS
EXPECTED TO RETAIN THE SUGAR PRICE SUPPORT AMENDMENT.
IT IS STILL UNCLEAR HOW THIS AMENDMENT WILL BE
IMPLEMENTED, HOW IT WILL AFFECT OUR SUGAR IMPORT
POLICY AND WHAT IF ANY EFFECT IT WILL HAVE ON THE
NEGOTIATIONS.

8. ASIAN DEVELOPMENT BANK
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A) LENDING RATE (LIMITED OFFICIAL USE)

THE ADB BOARD OF DIRECTORS DECIDED JULY 28 TO CUT THE
BANK'S LENDING RATE FROM 8.7 PERCENT TO 8.3 PERCENT
OVER STRENUOUS US OBJECTIONS SUPPORTED BY AUSTRALIA AND,
TO AN EXTENT, SEVERAL OTHER DIRECTORS. THE US HAD
ARGUED THAT A LENDING RATE REDUCTION WOULD BE FINANCIALLY
UNSOUND, GIVEN ADB BORROWING AND ADMINISTRATIVE COSTS,
BUT ADB MANAGEMENT NEVERTHELESS CONSIDERED IT NECESSARY
TO MAINTAIN RATES ROUGHLY COMPETITIVE WITH THE WORLD
BANK, WHICH HAS LOWERED ITS LENDING RATE TO 8.0 PERCENT.
IN A PARTIAL CONCESSION TO THE US-LED VIEW, THE BOARD
AGREED TO RAISE THE RATE AUTOMATICALLY AT THE END OF
THE THIRD QUARTER BY THE AMOUNT OF ANY IBRD INCREASE
AT THAT TIME.

B) SITE OF ELEVENTH ANNUAL MEETING (CONFIDENTIAL)

ADB MANAGEMENT HAS INFORMALLY REQUESTED THE US TO HOST THE 1978 ADB ANNUAL MEETING, PREFERABLY ON THE WEST

COAST JUST AFTER THE IDB ANNUAL MEETING IN VANCOUVER APRIL 17-19. USADB RECOMMENDS THAT WE SERVE AS HOST, IF NOT IN 1978, THEN 1979. THE CHIEF ISSUE IS THAT MOST ADB MEMBERS ARE UNWILLING TO HOST DUE TO REPUBLIC OF CHINA PARTICIPATION, AND USADB WARNS THAT FURTHER DIFFICULTIES OF THIS SORT COULD WELL INCREASE ANY INCLINATION TO EXPEL THE ROC FROM THE BANK. WHILE THERE ARE PRACTICAL DIFFICULTIES WITH A MEETING ON THE WEST COAST, NOT LEAST JUSTIFICATION OF THE COST, WE AND TREASURY WILL BE TAKING A CAREFUL LOOK AT THE POSSIBILITY OF SERVING AS HOST IN 1978 OR 1979.

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9. ESTABLISHMENT OF IFAD PROGRESSING SMOOTHLY
(LIMITED OFFICIAL USE)

THE FOURTH MEETING OF THE PREPARATORY COMMITTEE TO ESTABLISH THE INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD), HELD IN ROME JULY 11-15, COMPLETED ALL BASIC TASKS ASSIGNED TO IT. THE RESULTS WERE IN LINE WITH MAJOR US OBJECTIVES FOR IFAD. IFAD SHOWS PROMISE OF BEING AN EFFECTIVE INSTITUTION FOR IMPROVING FOOD PRODUCTION AND NUTRITION IN THE LDCS WHICH WILL COMPLEMENT, RATHER THAN COMPETE WITH, EXISTING INTERNATIONAL INSTITUTIONS. RATIFICATION OF IFAD BY MEMBER GOVERNMENTS WHO HAVE PLEDGED AT LEAST DOLLARS 750 MILLION, I.E. THE MINIMUM NEEDED FOR ENTRY INTO FORCE, IS EXPECTED BY THE END OF SEPTEMBER.

10. US WINS ZENITH CASE (LIMITED OFFICIAL USE)

THE COURT OF CUSTOMS AND PATENT APPEALS RULED IN FAVOR OF THE US GOVERNMENT WHEN IT OVERTURNED, BY A 3-2 VOTE, THE CUSTOMS COURT DECISION THAT THE JAPANESE REBATE OF A COMMODITY TAX ON ELECTRONIC PRODUCTS IS A BOUNTY. HOWEVER, WE ARE NOT OUT OF THE WOODS YET AS ZENITH HAS ANNOUNCED IT WILL APPEAL TO THE SUPREME COURT AND THE DISSENTING OPINION IS CONSIDERED TO BE STRONG LEGALLY.

11. TRANSFER OF TECHNOLOGY (CONFIDENTIAL)

THE UNCTAD GROUP OF EXPERTS MEETING ON A CODE OF CONDUCT FOR THE TRANSFER OF TECHNOLOGY IN GENEVA JULY 25-29 PRODUCED LITTLE FORWARD MOVEMENT. THE G-77 GAVE NO GROUND, DESPITE DEVELOPED COUNTRY WILLINGNESS TO COMPROMISE IN A NUMBER OF AREAS, AND THE RESULTING TEXTS WERE HEAVILY BRACKETED, WITH CONFLICTING
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LANGUAGE ON DEFINITIONS, OBJECTIVES AND PRINCIPLES,
AND RESTRICTIVE BUSINESS PRACTICES IN JUXTAPOSITION.

THE US DELEGATION SURMISED THAT G-77 STRATEGY WAS TO GET ITS FULL POSITIONS INTO THE DOCUMENTS SO THAT, FAILING TO GAIN ACCEPTANCE AT THE TECHNICAL LEVEL, THEY MIGHT ACHIEVE THEIR AIMS AT THE POLITICAL LEVEL. IT BELIEVES THE G-77 WILL PROPOSE TO THE UN GENERAL ASSEMBLY THAT THE UN CONFERENCE ON THE CODE FOR TECHNOLOGY TRANSFER CALLED FOR BY UNCTAD IV BE HELD AT THE MINISTERIAL LEVEL. CONSEQUENTLY, THE DELEGATION SUGGESTED THAT THE USG REVIEW ITS STRATEGY OF SEEKING COMPROMISE ON TECHNOLOGY TRANSFER AND CONSIDER CAREFULLY WHETHER, WITH MANY SIGNIFICANT DIFFERENCES OF VIEW STILL OUTSTANDING, THE TIME IS RIPE FOR THE CONFERENCE.

12. ILLICIT PAYMENTS (CONFIDENTIAL)

THE 63RD ECOSOC, MEETING IN GENEVA, APPROVED A COMPROMISE RESOLUTION SUBMITTED BY THE US IN AN EFFORT TO SALVAGE SOME OF OUR OBJECTIVES. THE US ABANDONED THE EFFORT TO SET A DATE FOR A DIPLOMATIC CONFERENCE, AND INCLUDED IN THE RESOLUTION A LINK BETWEEN PROGRESS ON AN ILLICIT PAYMENTS AGREEMENT AND PROGRESS ON A CODE OF CONDUCT FOR MULTINATIONAL ENTERPRISES. ON THE POSITIVE SIDE, THE RESOLUTION EXPANDS MEMBERSHIP OF THE AD HOC INTER-GOVERNMENTAL WORKING GROUP TO INCLUDE ALL INTERESTED MEMBER STATES AND REQUESTS THE WORKING GROUP TO DRAFT AN INTERNATIONAL AGREEMENT ON ILLICIT PAYMENTS, WITHOUT A DEADLINE. IN LIGHT OF THIS OUTCOME AND G-77 TACTICS OF TYING WORK ON ILLICIT PAYMENTS TO A MULTINATIONAL CORPORATION CODE OF CONDUCT, THE US WILL HAVE TO REASSESS ITS TIMETABLE FOR AN ILLICIT PAYMENTS AGREEMENT.

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13. OPIC BOARD MEETING (LIMITED OFFICIAL USE)

THE BOARD TENTATIVELY ADOPTED NEW GUIDELINES THAT WOULD RESTRICT OPIC'S ACTIVITIES IN ADVANCED LDCS, DEFINED AS THOSE WITH PER CAPITA INCOMES ABOVE 1000 DOLLARS AND A HIGH RATE OF GROWTH. THE BOARD AGREED UPON A NUMBER OF EXCEPTIONS FOR ADVANCED LDCS, INCLUDING PROJECTS CONSIDERED HIGHLY DEVELOPMENTAL, UNDERTAKEN BY SMALL BUSINESS, OR IN MINERALS. AN EXCEPTION FROM THE RESTRICTIONS IS ALSO ALLOWED FOR COUNTRIES WHERE THE SECRETARY OF STATE FINDS IT TO BE IN THE NATIONAL INTEREST. THE BOARD MADE ITS RESOLUTION TENTATIVE, HOWEVER, SUBJECT TO REVIEW BY THE NEW PRESIDENT OF OPIC, WHOSE APPOINTMENT IS IMMINENT, AND TO CONFIRMATION BY

THE BOARD AT A SUBSEQUENT MEETING. CONSEQUENTLY, NO DECISIONS WERE MADE REGARDING THE STATUS OF PARTICULAR COUNTRIES, AND ALL OPIC PROGRAMS WILL CONTINUE TO OPERATE NORMALLY FOR THE TIME BEING. PRIOR TO THE BOARD MEETING,

EA AND EB HAD AGREED ON A STATE RECOMMENDATION REGARDING SINGAPORE THAT NO DECISION BE MADE (ALLOWING THE PROGRAMS TO OPERATE) UNTIL WE HAD THE OPPORTUNITY TO ASSESS THE RESULTS OF THE US-ASEAN CONSULTATIONS AND PRIME MINISTER LEE'S PLANNED TRIP TO THE US.

14. PERSONNEL CHANGES (UNCLASSIFIED)

DAVE BOERIGTER LEFT EA/EP LAST WEEK; HE EXPECTS AN ASSIGNMENT WITH THE STATE GOVERNMENT OF CALIFORNIA. BEGINNING YESTERDAY WE WELCOMED DON MCCONVILLE ON BOARD WHOSE LAST POST WAS SEOUL. HE WILL BE ECONOMIC PLANNING OFFICER FOR DEVELOPING COUNTRIES IN THE REGION AND HE JOINS US JUST IN TIME TO GIVE A MUCH NEEDED HELPING HAND FOR THE PREPARATION OF THE ASEAN TALKS.

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